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Public Relations -- Everybody's Job

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PUBLIC RELATIONS—EVERYBODY'S JOB

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"Public Relations"—what is it? My dictionary says, "those functions of an enterprise, organization, army, etc. that acquaint the general public with its activities, purposes, policies and accomplishments. Business enterprises acquaint the public with their activities through the great medium of advertising. The codes of ethics of professional people specifically forbid advertising, as such.

Every professional accounting organization devotes a great deal of time, energy and funds to its public relations program, to bring its message to a public possessing very diverse conceptions of accountants.

There are still a few old-fashioned enough to believe that the auditor comes in to look for mistakes in the bookkeeper's work, or for embezzlement or defalcations. It is true that by his training and experience he is alert to the possibilities of fraud, is quite likely to discover ordinary human error in the records and may serve as a deterrent to dishonesty in the bookkeeping department. His function is much more important, however, than that of a business detective.

There are some who think that accountants are touched with genius—or possibly just "touched"—because they are able to understand and prepare with reasonable correctness the various Federal and state tax returns and other forms which burden business today.

There are those for whom the accountant makes only an annual audit and submits a financial report, as a kind of "seal of approval" on the condition of the business and the operations of the past year.

There are a few who think that accountants and accounting are completely unnecessary. Their theory is that if you know what you owe to others, what others owe to you, and how much cash you have on hand, that's all you need to know to run a business.

A client once sent us a cartoon which pictured a man seated behind a desk labelled "controller" and another man standing in front of it. A number of fat, pastel colored piggy banks were scattered over the desk. Each was marked with a label such as: taxes, repairs, inventory, shop, payroll. On the floor was a bushel basket overflowing with greenbacks. Striped socks stuffed with money were pinned to the wall and to the filing cabinet behind the desk. The caption under the cartoon said, "Maybe we've outgrown our accounting system, Paul."

Of great significance to me in this cartoon were the two graphs pinned to the wall. The sales graph showed a line which went sharply downward through the edge of the chart and plunged on down the wall toward the floor. The graph for "expenses" went up through the top of the chart and cracked the plaster on its mad dash toward the ceiling.

As I studied this picture, I thought regretfully of the ethical taboo on advertising by accountants, for here was a perfect illustration for an advertisement. Obviously Mr. Controller needed a new accounting system, for no doubt the principal reason for the drop in sales and rise in costs was that he could neither see what was inside his piggy banks nor could he recognize the relationships of the various items of costs, expenses and income.

How many businesses, in spite of a set of books, bank accounts, clerks and bookkeepers, and perhaps even monthly reports, have just such a "piggy-bank" system of accounting? Many an average small business man is so occupied with running his plant, selling his product, and dealing with labor, suppliers, banks, and customers that he has little time to sit down and study financial reports. Indeed, often he is not sure he understands the report in front of him. He is interested in his cash balance, what he owes and what is owed him. A balance sheet obscured by reserves and accruals leaves him rather baffled. While he is making profits the situation is not too bad, but when his sales chart begins to dip and his expense chart to rise, he begins to wonder what has happened.

This, then, is the public which the accountant stands ready to serve—some suspicious, some admiring, some unaware of the inadequacies of their accounting systems or of their need for accountant's services, and some who understand, appreciate and utilize such services.

Businesses which can afford a good accounting department, headed by a treasurer and controller who can direct and manage the financial end of the business, leaving production, sales, labor relations, credit and so on to others who are expert in those phases of business, need the independent accountant only for annual audits, preparation of tax returns and other special services.

The accountant can render smaller businesses an invaluable service by not only making an annual audit but by making interim audits and presenting statements throughout the business year, and giving the client the benefits of a kind of part-time controllership or financial management. Or he can educate the client to understand and rely upon monthly or quarterly financial statements and other information which can be obtained from his accounting records and to use them as an important tool in planning the operation of his business.

This does not mean a mere bookkeeping or "write-up" service. It means picking up the statements from the client's bookkeeping records, making what adjustments are required, submitting a report and pointing out to the client significant changes and fluctuations in expenses and income, indicating danger spots and generally giving him the benefits of the accountant's experience and wider outlook garnered from his familiarity with more than one business and industry.

I am assuming, of course, that the accountant is qualified to offer such service. Part of the program of the American Institute of Accountants and of the state CPA societies is to continually remind the small practitioner that he must keep abreast of current developments, not only in accounting and taxation, but in all phases of the business economy. If the public practitioner remains content to limit himself to "write-up" work or straight audit work, he is doing himself and his profession a disservice. He can specialize in accounting for a certain industry or trade, but he must be prepared to offer not only auditing service but also tax work, installation of systems, cost accounting and financial advice. In fact, if he specializes in a particular class of clientele, the accountant must, more than ever, be prepared to offer his client every kind of accounting service and assistance in financial management.

This may be the most valuable service the average small or medium sized accounting firm can render its clients, and it is, perhaps, the hardest service to sell. Many a small business man feels that the three fundamentals of cash on hand, what is owing and what is owed gives him sufficient information, and he points to his net profits to prove his point. But do his net profits take into consideration reserves, depreciation, accruals and other adjustments? Do they show him what he has really netted for a period of operations? Will he wake some day to find that there are no profits? Something he has forgotten to take into account has come along and turned black figures into red.

When that happens he is willing to seek more than auditing service from his accountant, and to ask for advice and assistance in the financial management of his company. Unfortunately, it is, too often at that stage, too late.

This is the service which the public accountant has to sell and which he can only sell through public relations. He can "sell" such services, as required, to his present clients without too much trouble. He can rely only upon the public relations work of his professional organizations and the recommendations of his work made by his clients and other business associates in reaching those who do not avail themselves of public accountant's services.

In other words, the accountant must acquaint his clients and business associates with his capabilities and with the importance of the service which he is prepared to render. He must depend upon his clients and business associates to assist him in this public relations work.

Much has been done along these lines in recent years. A pamphlet discussing the problem of credit information from the viewpoints of the banker and the businessman and the value of the report of an independent certified public accountant was published in 1952 by Robert Morris Associates. The pamphlet was the work of the Robert Morris Associates' Committee on Cooperation with Public Accountants — a committee which has existed for about thirty years, and is comprised of members of Robert Morris Associates and the American Institute of Accountants.

That credit men believe in the value of an independent auditor's report is also reflected in Dun & Bradstreet's increasing interest in reports of independent auditors, and the request in their standard reporting form for a copy of the accountant's certificate. Many small businessmen feel that such audits are of no value to them because they have no obligation to third parties. It is our mutual problem to demonstrate that a supplier granting credit is interested in reliable financial information and that the businessman has the same obligation to the supplier as to a bank or a stockholder.

The problem of the accountant is how to

call this—and the additional fact that such reports are useful for managerial purposes—to the attention of the small businessman whom he does not already serve. The answer is, he cannot, as an individual, without violating the CPA code of ethics in some manner, except in unusual circumstances.

Credit men can do accountants a great service by explaining to small business men just why they consider reports of independent accountants so important.

How often have you, as a credit man, drawn an agency credit report with very sketchy data or no financial information at all? How often have you written or phoned a creditor asking for more information? How often, when you learned the creditor had no independent accountant, did you explain the need for such services and their value to the creditor?

It is not necessary that you recommend one specific accountant, unless the creditor asks for such advice. But you would do yourself, as well as accountants, a great service if you can help the creditor understand the value of accounting services. If you can sell him the idea of availing himself of such services, you will then be able to obtain the financial information you need for granting him credit.

Public relations work done by others for the accountant is not so one-sided as it might at first appear. Let us consider for a moment the public relations work for credit men which can be done by accountants.

What does the business public think of credit men? Speaking as an observer from the sidelines, I can think of the following reactions to a credit man's request for financial information:

The indignant creditor who cries, "Who's that nosey parker anyway? All I want is $100 worth of goods and I intend to pay him when his bill comes due. If he won't trust me, I can take my business elsewhere."

Or the salesman in your organization who wails that you lost a customer he had been trying to land for months, by insisting upon financial information which the customer was not disposed to give.

Or the business man who quietly drops the requests for information from Dun & Bradstreet or other credit agencies, into his wastebasket with a muttered "None of their business."

Or, on the more cheerful side, the man who comes to you voluntarily with his problem, explaining that while he can't pay you within your credit terms, his plans are thus and so, and he expects that by a certain time he will be able to pay, and that he will keep you informed of his progress.

Or the man who submits his statements willingly to the credit reporting agencies or to his suppliers individually, appreciating their need of such information, since he too has a credit department with similar problems.

The latter man is the kind of customer and client we all like—a man who knows his business and knows enough to consult others who are expert in their particular fields of accounting, credit, banking and law when the need for their services arises.

What of the others? Credit men, too, need public relations to explain to their customers, their salesmen and the business world in general that their need for financial information is not idle curiosity but a necessary adjunct to the financial planning and welfare of their company.

And it seems to me that perhaps no one is better qualified to explain this to the man from whom credit information has been requested than his accountant. When the accountant and the credit man understand each other they can each work public-relation-wise for the other with their clients and customers.

Then how do we go about selling these ideas to the customer and client?

First, the accountant must "sell" his client the idea that trade credit is the mainstay, perhaps the principal one, of his business, from both a receivable and a payable angle. His suppliers advance him capital, in the form of good services for a period of ten to ninety or more days, depending upon the credit terms. Similarly the client "lends" capital to his customers in comparable terms, in advancing goods or services upon their promise to pay him at some later time. There is therefore a constantly revolving capital account in his accounts receivable and payable, over and above his own invested capital bank borrowings or long term indebtedness. Since the client does not invest his own capital nor obtain capital from stockholders, bondholders, or other long term creditors until he and they have satisfied themselves that their investment is a sound one so too a credit grantor will only invest his short term capital in an open account after he has satisfied himself that his investment will be a sound one.

How did these long term investors satisfy themselves that their investment would be a good one? By knowing something about the enterprise in which they were investing and the man or men who were to manage this enterprise. Some of that knowledge is first-hand acquaintance with these men, their characters, their capabilities to run the enterprise successfully, and some of that knowledge was based upon the information contained in financial statements and reports about these men and their enterprise.

Similarly the short term investor — the grantor of trade credit—must satisfy himself. Often personal acquaintance is not possible, or even necessary, but some knowledge of the enterprise is required, and it can be supplied by adequate financial statements.

What knowledge does an adequate financial report supply? Pick at random a report of a large corporation submitted to its stockholders. It is likely to contain pages of photographs, graphs, statistics, and thousands of words covering a review of the year written by the chairman of the board. But even these pages of pictures and words cannot give a complete picture of the corporation. Indeed it takes a vivid imagination to visualize the entire scope and magnitude of that enterprise. At the end of the report is found the independent auditor's statement and report.

Then, on a single page, the "Consolidated Statement of Financial Position" gives a complete picture of the industry on a given date, and a comparison of its position with the year previous. Another page, or a double page spread will give the history of the activities and accomplishments of the entire enterprise for the year—the statement of income. Here in two or three pages, with additional pages giving further details and breakdowns of certain items, is a complete picture for the year, reduced to the common denominator of the dollar sign.

That, to me, is the magic of the accountant—the ability to reduce any enterprise, large or small, to two pages of figures—its status at any given date (the balance sheet) and a history of its activities for any given period (the statement of income or profit and loss).

From such a word and number picture, the credit grantor can, if he knows how to read a financial statement, get a fairly good idea of the capacity of an enterprise to pay its trade debts and of the character of the manager of the enterprise and his ability to run his business profitably.

Of course, anyone can "make up" a balance sheet and profit and loss statement, but if financial statements are submitted by the independent accountant for the creditor, then the credit man can be more assured that the figures upon which he bases his decision are a true picture of the creditor's financial position.

"But," you say, "if the prospective creditor is a stranger to us, and is located in another city or state, then his accountant will probably also be a stranger to us. What assurance have we that the statements which the accountant submits are any more accurate or true than statements which the creditor himself may submit?"

I would like to point out that the CPA's certificate in a financial statement is not lightly given. The usual short form certificate says that, in the accountant's opinion, the balance sheet and statement of income and surplus present fairly the financial position of the company at a certain date and the results of its operations for a certain period ending on that date.

Before he puts his signature to that opinion, the accountant is ethically bound to have performed certain tasks, and followed certain procedures, which may vary from audit to audit, but which must conform to certain standards set down for and by the profession as a whole.

If he has not complied with all these standards, or if there are certain items in the statements which he has not verified to his satisfaction, the CPA is ethically bound to qualify his opinion as to the accuracy of the figures by pointing out those items to which he must take exception.

The credit man must rely upon some information in deciding the amount of credit to be extended to a prospective customer. He can accept the word of the salesman who called upon the customer and got a certain impression from first hand observation of the enterprise and the man or men who run it. He can accept the information in a credit agency report. He can accept the financial statements sent by the customer. Or he can accept the accountant's report on the customer. In all cases he must have a certain amount of faith in the source of his information.

Credit itself is faith—indeed even a cash transaction carries a certain amount of faith in it. For when we exchange dollars and cents for goods and services, we evidence our faith in a piece of paper or a coin as having a certain value. Or rather, we evidence our faith in the government which establishes the value of that paper or coin.

Credit requires a little deeper faith—you have faith that the man who owes you will

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TAX NEWS

By LOUISE A. SALLMANN, C.P.A., San Francisco, California

Wage Continuation Payments

Exciting news for those of us in public accounting or private industry, particularly if we are employees or want to win friends and influence employees, is a recent tax case which involved the American Telephone and Telegraph Co. wage continuation plan for ill or injured employees. (Herbkersman, USDC, S.D., Ohio 8/15/55). The A.T.&T. Co. plan covers tens of thousands of employees. Herbkersman, the employee, won a tax refund for the sickness benefits included in the gross income of prior years.

Although many employers and union contracts have provided for wage continuation payments to employees in previous years, the tax treatment of such benefits was in doubt until the passage of the 1954 Code. As we are all aware, the new Code allows an employee to exclude up to $100 per week from his gross income during periods of illness or injury when received under health and accident plans. The 1954 Code specifies that such plans may be insured or employer-sponsored and the employee may only need to substantiate certain conditions pertaining to hospitalization, length of illness, etc. in order to obtain the exclusion.

The tax case referred to above deals with employees who have included wage continuation payments in gross income for 1939 Code years. It followed the Epmeier decision (199 F.2d 508, 42 AFTR 716) in treating wage continuation payments as health insurance benefits, even though there was no formal contract of insurance. The Court found that the agreement of the employer to be liable for a certain amount of money in case of an employee's illness was, in essence, a health insurance contract between employer and employee.

The statute is still open for the years 1952 and 1953, so if you or your employees or clients have been taxed in those years on benefits received from a reasonably definite health and accident plan sponsored by an employer a claim for refund should be filed. As the saying goes, you have nothing to lose and everything to gain.

Employee Car Pools

Another subject that employees will be glad to have clarified is the old "Car Pool" question. Rev. Rul. 55-555, IRB 1955-36 provides the answer to commuters who have found that sharing rides is a solution to parking problems, transit strikes and rising bus and train fares, but has conversely produced possible taxable income.

Whether fellow employees traveling to and from work take turns driving or just one provides the transportation continuously and is reimbursed for his expenses, there are no resulting tax consequences. The driver need not include these reimbursements in his gross income nor is he allowed to deduct such automobile expenses.

Deferred Compensation Trusts

Another recent ruling, Rev. Rul. 55-525 (IRB 1955-33), emphasizes the fact that there is no tax advantage in a deferred compensation trust for employees which the employer can revoke at any time and under which the employees have no vested rights. The employer must include the trust income in his own income. This ruling should discourage employers from creating anything other than a qualified trust under which the employer cannot take back his contributions or earnings thereon, trust income is exempt and contributions are currently deductible even though employees' rights may be forfeitable.

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pay, and he has faith that the goods or services for which you extended him credit will be what you represented to him.

Faith requires knowledge. You have faith in the people whom you know personally; you can have faith in people you have never met, if you know something about them, their problems, their purposes, their ideals and principles.

Public relations is the means by which we gain that knowledge. Two organizations of business people can meet jointly, as you have tonight, and representatives of each can talk to you about their purposes and problems. But the real knowledge can be gotten from the across-the-table conversation of two or three or four people exchanging personal ideas.

Surely each of us can do something in our daily business life to further such public relations. Knowledge and faith is a person-to-person exchange of ideas. Who then can deny that public relations is everybody's job?